ANNUAL REPORT 1968

MARKBOROUGH
PROPERTIES LIMITED

Markborough Properties Limited

Contents

Operating, Financial and Statistical Highlights

1968 was the third complete year of operations for the Company. An historical comparison of financial highlights for the three year period is presented below.

	1968	1967	1966
Operating			
Revenue from income properties	$3,013,500	$1,386,700	$ 773,400
Revenue from land operations	2,855,700	2,551,600	1,464,900
Profit (loss) before taxes	871,300	294,900	(32,600)
Net profit (loss) after taxes	427,300	144,900	(32,600)
Financial			
Undeveloped land	$12,258,000	$11,546,300	$11,062,200
Income properties	27,880,400	24,027,400	12,191,500
Bank debt	6,325,200	6,437,700	8,822,400
Mortgage debt	21,410,600	15,931,900	11,408,100
Share capital	18,568,400	18,460,200	7,710,200
Per common share outstanding at year end			
Net income (loss)	11.7¢	4¢	(2¢)
Cash flow from operations	34¢	13¢	4¢
Equity	$5.24	$5.12	$5.17
Statistical			
Common shares outstanding at year end	3,648,494	3,627,094	1,489,100
Number of shareholders	1,988	1,167	235
Ratio of income properties to land held for development	2.3 to 1	2.1 to 1	1.1 to 1
Ratio of bank and mortgage debt to equity	1.4 to 1	1.2 to 1	2.6 to 1

Head Office

50 Holly Street, Toronto 7

Directors

D. S. Anderson
Vice President and Director
The Royal Bank of Canada, Toronto

T. L. Brock
Assistant to the President
Aluminum Company of Canada Limited, Montreal

R. C. Brown
Partner
Blake, Cassels & Graydon, Toronto

W. J. Dixon
General Manager
The Bank of Nova Scotia, Toronto

R. L. Friend
Vice President
The Investors Group, Winnipeg

R. H. Gane
Assistant Managing Director
George Wimpey & Co. Limited, London, England

Dr. J. M. Gillies
Dean, Faculty of Administrative Studies
York University, Toronto

A. R. Grant
Executive Vice President and General Manager
George Wimpey Canada Limited, Toronto

G. C. Gray
Vice President
Toronto-Dominion Centre Limited, Toronto

The Right Honourable Viscount Hardinge
Chairman
Greenshields Incorporated, Montreal

W. S. Harvey
Senior Vice President, Finance
Air Canada, Montreal

H. P. Langer
Vice President, Operations
Markborough Properties Limited, Toronto

D. S. Lyall
Vice President, Finance
Gulf Oil Canada Limited, Toronto

B. R. B. Magee
President
A. E. LePage Limited, Toronto

D. B. Mansur
President
Kinross Mortgage Corporation, Toronto

A. R. Marchment
Treasurer
The T. Eaton Company Limited, Toronto

P. M. McEntyre
Vice President and Secretary
Commercial Trust Company Limited, Montreal

J. C. Neely
President
Alcan Design Homes Limited, Montreal

D. M. O'Rorke
Solicitor
Blake, Cassels and Graydon, Toronto

J. H. Panabaker
Vice President (Investments and Corporate Services)
The Mutual Life Assurance Company of Canada, Waterloo

D. W. Pretty
Vice President, Finance
North American Life Assurance Company, Toronto

D. F. Prowse
Vice President, Finance
Markborough Properties Limited, Toronto

E. Schousboe
President
Secfin Company Ltd., Montreal

E. D. Scott
Investment Dealer
Greenshields Incorporated, Toronto

J. L. Toole
Chairman, CN Investment Division
Vice President, Canadian National Railways, Montreal

Officers

Brian R. B. Magee, F.R.I., S.I.R., C.R.E.,
President

H. Peter Langer, F.R.I., S.I.R.,
Vice President, Operations

Donald F. Prowse, B.A., C.A.,
Vice President, Finance

George H. Mundy, C.A.,
Treasurer

Ronald C. Brown, B.A.,
Secretary

Legal Counsel

Blake, Cassels & Graydon, Toronto
Taylor, Joy & McKague, Toronto

Auditors

Price Waterhouse & Co., Toronto

Bankers

The Bank of Nova Scotia, Toronto
The Royal Bank of Canada, Toronto

Transfer Agent and Registrar

Canada Permanent Trust Company, Toronto, Montreal, Halifax, Winnipeg, Calgary and Vancouver

Securities Listed

Montreal Stock Exchange
Toronto Stock Exchange


Regina Inn

President's Report

In 1968, your Company achieved a very satisfactory level of earnings for this stage in its development. Profit before taxes was $871,300, and after full provision for deferred income taxes was $427,300 or 11.7¢ per share. This compares to $144,900 or 4¢ per share in 1967. At $50,788,800, total assets increased $6,647,000 or 15% over 1967. About one-half of this increase is represented by additional investment in income properties.

Increased earnings from income properties reflect the addition of one office building and one apartment in Thorncliffe Park in Toronto, and the Regina Centre Complex in Regina, Saskatchewan. Our interest in the latter two buildings is 50%. We now have 12 income properties on stream and two under construction. We also have two other projects in the planning stage. One of these, a 556 suite apartment development in the east end of Metropolitan Toronto is of particular interest due to its unusually advantageous location. Overlooking a municipal golf course and situated only 300 yards from a station on the Toronto Subway Line the site is most attractive and is very convenient to public transportation. The installation of municipal services has been completed and construction is expected to begin early in 1969.

In land sales, the first phase of our Scarborough development in Metropolitan Toronto and the second phase of the Beaconsfield project near Montreal were completely sold out. We expect that our next phase in Scarborough, providing about 244 building lots, and our last phase in Beaconsfield, about 90 lots, will be sold in 1969. We have taken steps to replenish our Scarborough raw land inventory and we estimate that our year-end holdings will enable us to conduct a more or less continuous operation in this area for five or six years.

As I mentioned to you last month in my Preliminary Report we are able from time to time to undertake various financial transactions involving real estate which provide a service to the industry and which return a satisfactory profit to the Company. These are too varied and complex to be specifically identified in our statements and we include the net revenue from this source as "other income" in our accounts. In 1968, this revenue was $274,000.

Very significant progress was made during the year in our continuing work toward the ultimate development of our holdings in Streetsville and Mississauga, west of Metropolitan Toronto. Through the fine cooperation received from Municipal officials and our own efforts we have concluded a Development Agreement with the Town of Mississauga. This agreement provides the framework for development of the area. This is a major step in opening up these lands for residential and industrial development which in turn will make a major contribution toward relieving the pressure on land costs for residential accommodation in the Toronto area. Actual development still awaits installation of major trunk services, but these plans are being furthered and we are most encouraged by the increased momentum which now seems to be

taking place. On December 17, five Peel County municipalities including Streetsville and Mississauga signed an agreement with the Ontario Water Resources Commission. Under the agreement the O.W.R.C. will take over the water and sewage plants and main trunks from the municipalities and extend the existing services to accommodate the sewer and water needs of the area.

The increasing number of major property companies emerging in the public sector of our economy and the extent to which large companies active in other fields are engaging in real estate investment, attest to the enhanced stature and growing maturity of the real estate industry. In recognition of the increased public interest in property securities, the Toronto Stock Exchange now includes a real estate index in the eighteen indices which it publishes daily.

The industry generally is buoyant in spite of the high cost of money, land and construction which together form its basic ingredients. While I can see no indication of lower interest rates in the near future, I can foresee certain developments which should contain land and construction costs. The opening up of new land areas through the installation by public authorities of major trunk services should alleviate mounting land prices. As for construction costs, advances in building techniques will, I am convinced, help restrain the rising costs of home construction.

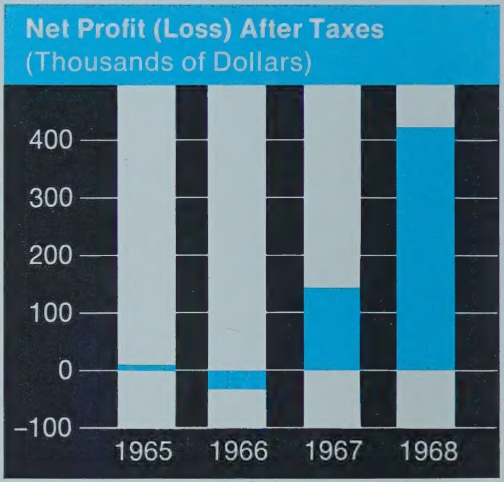
As noted elsewhere in this report, the number of shareholders of your Company has increased in the last year to 1,988 compared to 1,167 a year ago. May I welcome the new shareholders and thank you all for the confidence you have shown in the concept and management of the Company. In keeping with the recently adopted requirements of the Toronto and Montreal Stock Exchanges, we will be reporting the Company's earnings on a quarterly basis rather than semi-annually as in the past. This new reporting procedure will keep our shareholders and the general public better informed on the progress of the Company.

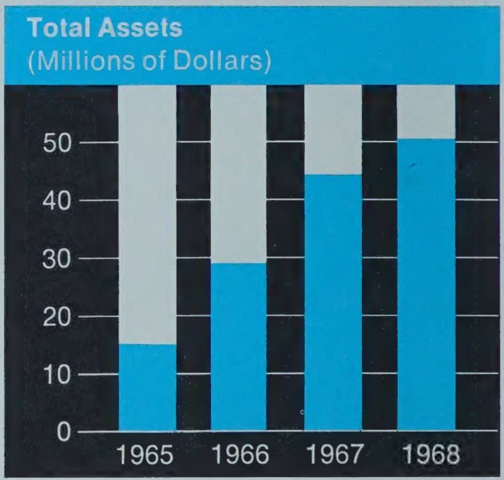
I would like to welcome Viscount Hardinge and Mr. E. D. Scott to the Company's Board of Directors. The other Directors and I are looking forward to the contributions of these gentlemen to the Company's major policy decisions.

Finally, let me extend a word of thanks to the entire Markborough staff for their interest and efforts in the last year. The Company's progress to date has been gratifying and I am confident that it will continue to prosper in the future.

B. R. B. Magee
President

Toronto, Ontario
January 20, 1969





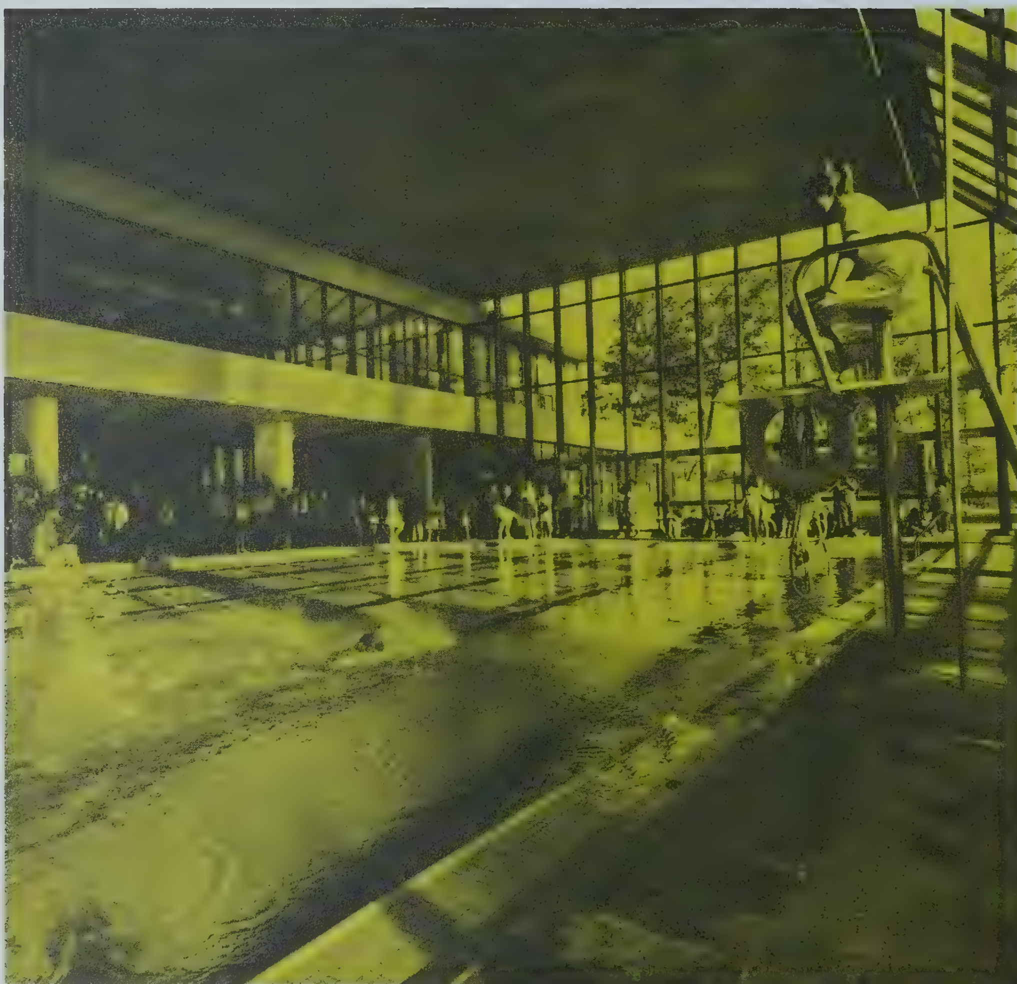
49 Thorncliffe Park Drive

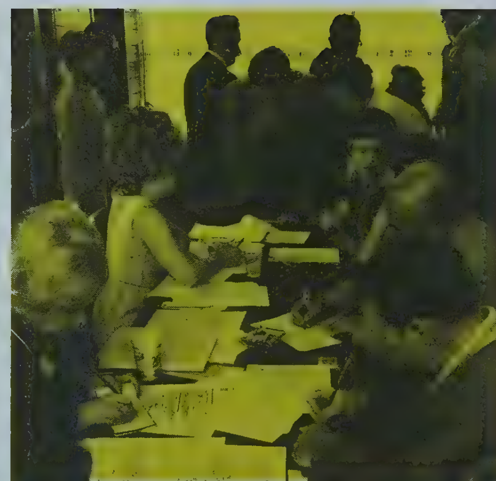
In 1968, the Company experienced satisfactory short term progress and significant contributions to its long term potential. Emphasis continued to be placed on residential and commercial development. The Company was actively engaged in acquiring land in strategic areas, in adding to its income property holdings, in developing residential subdivisions, and in the conceptual planning of its raw land inventory.

In keeping with its policy of enlarging its portfolio of income properties, the Company is continually investigating existing properties offered to it across Canada. The strong demand for such properties has held prices at levels which make it difficult to realize satisfactory yields. Generally, it has been found that more adequate yields can be obtained through the development of our own income producers. Particular stress is placed on a project's abilities to successfully meet future as well as present markets.

Thorncliffe Park in Metropolitan Toronto is considered by many experts to be one of the continent's best examples of an apartment oriented community, representative of important trends in housing. Here, your Company has a 50% interest in two apartment buildings overlooking the Don Valley green belt and much of the metropolitan area. 49 Thorncliffe Park Drive, a 400 suite Y-shaped building, became operational this year and is almost fully leased. A 279 suite building, 53 Thorncliffe Park Drive, is in the final stages of construction and has been leasing at the rate of 40 suites per month. It is expected that this building will be fully leased in the spring of 1969.

Most modern apartment developments cater to, and are identified with, specific groups of tenants. Many buildings are characterized by the age grouping, family size, income levels or urbanity of their tenants. Our Thorncliffe buildings appeal to young and old alike, to downtowners and suburbanites. Their wide base of popularity reflects the excellence of location (a short walk from the expanding Thorncliffe Market Place; 10 minutes driving time to downtown Toronto) and the spacious, comfortable quality of the suites. Floor areas of one bedroom suites range to 950 square feet and three bedroom suites to 1500 square feet.





To help ensure the popularity of its Thorncliffe holdings in future years, your Company is sharing in the operation and ownership of a 40,000 square foot social and recreation complex adjacent to its buildings. This private community centre, the Donview Club, has been a great success since opening in mid-October, this year.

Linked by weather-free underground passages to our buildings, the striking glass and concrete structure features a 42 by 75 foot enclosed pool, gymnasium, nursery, banquet and activity rooms. Tenants may choose from a wide range of activities, including swimming, saunas, bridge club, keep-fit classes, billiards and a generous lounge to stimulate new friendships. The increased understanding of the needs of the community gained from this operation will be carried forward into future developments undertaken by the Company.

The Somerset

In North York, Metropolitan Toronto, on the grounds of a former private estate, and overlooking a heavily treed valley, the Company owns a unique luxury apartment building. The majority of the 243 air-conditioned suites in The Somerset are split levels. Corridors are located on every second floor creating many "through" suites. The building has a strong appeal to former home-owners. Vacancies seldom occur and rentals range from $165 to $305 per month.

In the Westway Village community of Etobicoke, Toronto, the Company owns seven apartment buildings catering to families. Two and three bedroom suites predominate in the suite mix. Tenants appreciate the area's excellent proximity to shopping, schools, bus routes and the MacDonald Cartier Freeway. The buildings range from two to five years in age and rentals start at $142 per month.

Adjustment of rentals to maintain adequate yields in the face of the increased realty taxes and operating costs has caused a higher than normal vacancy factor in these buildings. By improving the efficiency of operations, and the physical attractiveness of the properties, the Company has taken steps to meet this situation. Two "free-form" swimming pools have been provided for three of the buildings, and a third pool is planned. Improvements to the quality of landscaping and play areas are also contemplated.


15 Overlea Boulevard

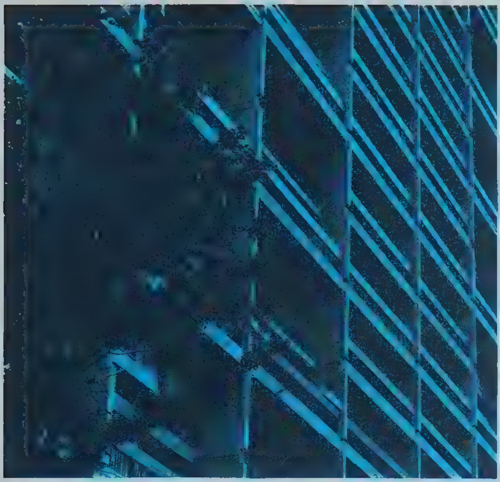

At the right, 7 Overlea Boulevard

Metropolitan Toronto's booming office market is not entirely a downtown phenomenon. During the year, the Company's first major office building, 15 Overlea Boulevard in Thorncliffe Park, was fully leased within two months of its completion. Overlooking an eight-acre park, the 160,000 square foot building has an open, spacious atmosphere, with fine views in all directions. The location is ideal for today's highly mobile office workers – close to a major expressway, the Don Valley Parkway, several key arteries, and served by direct buses to two subway lines. Employers in the area also benefit from the large labour pool available from within the Thorncliffe apartment community.

The successful leasing of 15 Overlea Boulevard has prompted the Company to undertake the development of a second, almost identical 150,000 square foot building on adjacent parkside land. Designated 7 Overlea Boulevard, the building is well under way and should be ready for its first tenants in the spring of 1969. It offers the same efficient use of space, virtually column-free interiors, high ratio of parking space, strongly sculptured exterior and easily accessible location as its twin.

While the Company's interests are centred around the rapidly expanding Metropolitan Toronto area, it is continually exploring opportunities to expand its interests to other major centres, as sole developer or as a partner in joint ventures with responsible local builders. Where projects can be found meeting its requirements of location, design, construction and financial return, the Company will consider expanding its interests into those areas.

In Regina, the capital of Saskatchewan, the Regina Inn has quickly established itself as the centre of the Queen City's convention and social life. The Inn's 200 rooms have not proven sufficient to meet the heavy demand and plans have recently been announced for a 40 room addition. The banquet and convention facilities can handle from 50 to 1000 persons. Many national and provincial conventions were hosted by the Inn this year, including the Canadian Medical Association, the Royal Architectural Institute of Canada, and the Canadian Radio and Television Commission conventions. In the shopping mall, the adjoining supermarket, theatre and specialty shops are enjoying an increasing volume of business. The Company is a 50% owner of this development.



Summary of Income Properties

Metropolitan Toronto

Apartments:

Rideau Towers (50% share)	49 Thorncliffe Park Drive	400 suites
The Somerset	605 Finch Avenue West	243 suites
The Clarion	20 Redgrave Drive	178 suites
The Westway	416 The Westway	102 suites
Westway Maisonettes	65 Sandwell Drive	16 suites
The Westerham	63 Callowhill Drive	112 suites
311 Dixon Road	311 Dixon Road	173 suites
Martinway Towers (70% share)	695 Martin Grove Road 60 Callowhill Drive	141 suites 141 suites

Commercial:

Office Building	15 Overlea Boulevard	160,000 sq. ft.
Service Station Site (leased to oil company)	418 The Westway	

Under Construction:

Office Building	7 Overlea Boulevard	150,000 sq. ft.
Rideau Towers II (50% share)	53 Thorncliffe Park Drive	279 suites

Regina, Saskatchewan

Regina Centre Hotel, shopping complex (50% share)	1975 Broad Street

Properties in the Metropolitan Toronto Area

Income properties completed or under construction

Land

Site

Park

Subdivision Land

Background above: Clarion Apartments

Servicing Westway Subdivision

Development of serviced land for sale is an important segment of your Company's activities. The Company purchases large parcels of unserviced land and develops them for sale as residential building lots, and apartment, commercial and industrial sites. Apart from supervision, most technical services required by Markborough are performed by consulting engineers, planners and architects. In this manner, the Company operates efficiently with a relatively small staff and utilizes top quality technical assistance when and as required.

Near the centre of the established Westway community, in Metropolitan Toronto's western Borough of Etobicoke, the Company will be developing, in 1969, a 35 acre parcel of land. An application for rezoning the area to permit single family and semi-detached housing was recently approved. This rezoning will create a better planned subdivision, more compatible with the existing community.

Servicing of the land began in late 1968. The 52 single family and 105 semi-detached building lots will be sold to private builders. The rezoning was followed with interest by several builders, and demand for these lots is already exceptionally strong.

In the community of Agincourt, Borough of Scarborough, the Company is proceeding with a long term development agreement with a national home builder under which Markborough purchases farm lands, obtains rezoning for residential use, and installs sewers, watermains, roads and other municipal services. The 239 remaining lots in the first phase of the Fields of Agincourt, were sold this year. A second phase, with 244 lots, was serviced during the year and the servicing of additional land will begin early in 1969. During the year 127 additional acres were purchased in this area, at a cost of $1,254,000, increasing our Scarborough land inventory to 320 acres. Preliminary planning studies are now under way for these lands situated between Midland Avenue and Bellamy Road. This is one of Metropolitan Toronto's most popular new housing areas. At the current rate of absorption, it is expected that our present land inventory will last from five to six years.

In suburban Beaconsfield, west of Montreal, 90 lots remain in the final phase of the Company's subdivision. As in the Fields of Agincourt, these lots are to be sold to a major home builder, under a sales agreement. This builder is committed to the purchase of these lots in 1969. A three acre commercial site makes up the remaining land in this subdivision.

Land Held for Future Development

Meadowvale land assembly surrounds the intersection of the MacDonald-Cartier Freeway and Mississauga Road

Development prospects for the Company's proposed 2300 acre Meadowvale development in the Towns of Streetsville and Mississauga have advanced markedly during the year. A Development Agreement has been entered into with the Town of Mississauga permitting the development of our holdings and setting out the conditions under which the land will be developed. Markborough's Meadowvale lands fall within the area to be serviced by the Ontario Water Resources Commission under an agreement recently signed by five Peel County municipalities under which the Commission will provide major water and sewer trunk services. As soon as these services are installed, development will proceed. It is felt by the Company that development of the entire area will extend over a 12 year period from commencement.

In recognition of the extreme importance of careful long range community planning, Markborough has engaged one of Canada's most capable and creative groups of planning consultants to prepare a master plan for a community of 60,000 persons. The 50 man professional staff of Project Planning Associates is known for its depth and imagination and is currently planning communities across Canada and in many foreign countries such as Monaco, Kuwait and Tanzania. They also master planned the impressive Century City near Los Angeles. The principals of the firm were responsible for the design of the much respected Don Mills Community in Toronto.

Development Sites

Urban dwellers are increasingly appreciative of apartments in interesting settings, convenient to downtown entertainment and employment areas. Your Company is constantly seeking sites of unusual character and has recently successfully rezoned a particularly attractive site in the Borough of Scarborough, Toronto.

Here, the Company plans to develop 556 suites in twin towers on a plateau overlooking the Dentonia Park municipal golf course and Taylor Creek Valley. The property is less than 1000 feet from the new Victoria Park subway station. These apartments will have a strong appeal to people recognizing the unusual beauty and character of the site.

A strategically located 142 suite apartment site will form part of our new Westway subdivision in Etobicoke. The site borders on a ten acre park, is one block from shopping and is close to the intersection of Highway 27 and the MacDonald Cartier Freeway. Public, high and technical schools are in close proximity.

In the Borough of North York, adjacent to the Company's Somerset Apartments, the Company owns a 158 suite apartment site. It has been decided to sell this site and a satisfactory offer has been accepted for its disposal in December, 1968.

Considerable effort was expended in furthering the development of the St. Paul's College property in downtown Winnipeg. A final decision regarding the development of this property is expected in 1969.

A planning and engineering team is now engaged in conceptual studies for the Meadowvale area and will assist in designing a unique urban community with ample flexibility to meet constantly changing market demands. These studies include new forms of housing and commercial developments, new construction and servicing techniques, social and recreational amenities, all integrated to meet the demands of tomorrow's communities. Our staff and consultants are determined to create in Meadowvale, an outstanding example of careful planning and development to the benefit of both the community and the Company.

Proposed Pharmacy Towers project, 556 suites in twin towers

1969 promises to be another year of increasing activity for the Company. Our income stream will be augmented by the addition of at least two major investment properties which we expect to have fully leased soon after completion. A spring start is planned for the construction of a 556 suite apartment project with other projects under consideration. We will be fully engaged in further development of residential subdivisions and we expect the market for building lots to remain strong.

The Company plans to aggressively pursue its program of land acquisition, and to encourage the submission of investment opportunities from across Canada.

Auditors' Report

PRICE WATERHOUSE & CO.
P.O. Box 51
Toronto-Dominion Centre
Toronto 1

November 28, 1968.

To the Shareholders of
Markborough Properties Limited:

We have examined the consolidated balance sheet of Markborough Properties Limited as at October 31, 1968 and the consolidated statements of income and expenses, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at October 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Consolidated Statement of Income and Expenses

For the Year Ended October 31, 1968
(with comparative figures for 1967)

	1968	1967
Revenue from income properties (Note 1)	$3,013,500	$1,386,700
Less:		
Operating expenses	573,700	273,500
Mortgage and other interest	1,163,500	474,500
Realty taxes	522,600	266,000
Depreciation (Note 2)	386,900	190,700
	2,646,700	1,204,700
Profit from income properties	366,800	182,000
Revenue from land operations	2,855,700	2,551,600
Less cost	2,253,300	2,064,400
Profit from land operations	602,400	487,200
Other income, net	274,000	47,800
Income before general and administrative expenses	1,243,200	717,000
General and administrative expenses:		
Executive and office salaries	148,700	133,200
Bank interest	26,500	39,400
Other	196,700	183,800
Expenses of common share issue	—	65,700
	371,900	422,100
Net income before income taxes	871,300	294,900
Provision for income taxes, deferred (Note 3)	444,000	150,000
Net income for the year	$ 427,300	$ 144,900

Consolidated Statement of Retained Earnings

For the Year Ended October 31, 1968
(with comparative figures for 1967)

	1968	1967
Retained earnings (deficit) at beginning of year	$ 133,700	$ (11,200)
Net income for the year	427,300	144,900
Retained earnings at end of year	$ 561,000	$ 133,700

Assets	1968	1967
Accounts receivable	$ 562,600	$ 315,000
Mortgages and other secured receivables (Note 4)	2,399,000	1,190,000
Deposits on property purchases	—	843,300
Land (Note 5):		
Under sales and option agreements (Note 6)—		
Developed	1,949,800	1,973,400
Undeveloped	4,284,300	3,797,400
For future development	7,973,700	7,748,900
	14,207,800	13,519,700
Advances relating to joint ventures (Note 7)	783,500	768,400
Prepaid expenses and other assets	426,200	215,900
Income Properties (Note 5):		
Land	3,220,400	3,269,900
Buildings	20,889,300	11,745,500
Equipment	909,600	564,700
Construction in progress (Note 8)	3,735,100	8,934,400
	28,754,400	24,514,500
Less accumulated depreciation	874,000	487,100
	27,880,400	24,027,400
Sites for income property construction (Note 5)	4,529,300	3,262,400
	$50,788,800	$44,142,100

Consolidated Balance Sheet — October 31, 1968
(with comparative figures at October 31, 1967)

Liabilities and Shareholders' Equity	1968	1967
Bank indebtedness	$ 6,325,200	$ 6,437,700
Accounts payable and accrued liabilities:		
On construction and development in progress	948,500	1,922,400
Other	599,200	300,800
Provision for development costs (Note 9)	600,800	662,800
Amount payable under land purchase agreement, due April 1970	1,020,000	—
Security deposits by lessees	161,100	142,600
Mortgages payable (Note 10)	21,410,600	15,931,900
Deferred income taxes (Note 3)	594,000	150,000
	31,659,400	25,548,200
Shareholders' equity:		
Capital stock (Note 11) —		
Authorized – 6,000,000 common shares, no par value		
Issued – 3,648,494 shares (1967 – 3,627,094 shares)	18,568,400	18,460,200
Retained earnings	561,000	133,700
	19,129,400	18,593,900
	$50,788,800	$44,142,100

On behalf of the Board:
B. R. B. Magee, *Director*
D. F. Prowse, *Director*

Consolidated Statement of Source and Application of Funds

For the Year Ended October 31, 1968
(with comparative figures for 1967)

	1968	1967
Funds were provided from:		
Operations:		
Net income for the year	$ 427,300	$ 144,900
Add expenses included therein not requiring a current outlay of funds —		
Depreciation	386,900	190,700
Income taxes, deferred	444,000	150,000
	1,258,200	485,600
Mortgages on income properties and land	6,430,300	8,571,000
Land, development and related costs realized through sales	2,253,300	2,064,400
Cost of income property land sold, subject to lease-back	300,700	—
Common shares, proceeds from issue	108,200	10,750,000
Total funds provided	10,350,700	21,871,000
Funds were applied to:		
Income properties, construction and acquisition	4,289,400	11,362,600
Land:		
Acquisition	2,598,700	1,591,100
Development and related costs	1,453,200	1,683,400
Carrying charges	469,600	578,000
Mortgage principal repayments	951,600	4,047,200
Bank indebtedness	112,500	2,384,700
Total funds applied	9,875,000	21,647,000
Net change in other assets and liabilities	$ 475,700	$ 224,000
Represented by:		
Increase (decrease) in —		
Accounts, mortgages and other secured receivables	$ 1,456,600	$ 1,076,100
Deposits on property purchases	(843,300)	76,300
Advances relating to joint ventures	15,100	8,300
Prepaid expenses and other assets	210,300	160,700
	838,700	1,321,400
Deduct increase (decrease) in —		
Accounts payable and accrued liabilities	(675,500)	1,042,600
Amount payable under land purchase agreement	1,020,000	—
Security deposits by lessees	18,500	54,800
	363,000	1,097,400
Net change in other assets and liabilities, as above	$ 475,700	$ 224,000

1. Revenue from Income Properties:

Revenue from income properties includes gross rental revenue from all of the Company's properties except Regina Centre. Amounts relating to this operation have been included after deducting direct operating expenses.

2. Depreciation Policy:

The buildings included in income properties are being depreciated on a 3%, 40 year sinking fund basis. Equipment is being depreciated at 15% on a straight line basis.

3. Deferred Income Taxes:

In calculating taxable income the Company avails itself of certain provisions of the Income Tax Act to eliminate taxes currently payable, and as a result the provision for 1968 income taxes of $444,000 together with the 1967 provision of $150,000 are shown in the balance sheet as deferred income taxes.

4. Mortgages and Other Secured Receivables:

Mortgages and other secured receivables, which arise from land transactions, bear interest from 7% to 8% and mature as follows:

Fiscal year ending	
October 31, 1969	$ 3,500
1970	2,207,600
1972	187,900
	$2,399,000

Under certain conditions the amounts due may be paid prior to maturity.

5. Valuation of Land and Income Properties:

On August 12, 1965 Markborough Limited and Highbury Properties Limited amalgamated under the Ontario Corporations Act to form Markborough Properties Limited. Land originally held by Markborough Limited was recorded at cost. Land and income properties held by Highbury Properties Limited at August 12, 1965 were recorded in the Company's accounts at approximately $1,800,000 less than the valuation at the date of amalgamation and approximately $4,100,000 in excess of the values recognized for income tax purposes.

The $4,100,000 excess of book values over values for income tax purposes is allocated approximately as follows:

Land for future development	$1,800,000
Sites for income property construction	900,000
Income properties:	
Land	1,100,000
Buildings and equipment	300,000
	$4,100,000

Additions to land and income properties since August 12, 1965 are at cost which includes applicable carrying charges (interest and real estate taxes). The carrying charges added to land under sales and option agreements are fully recoverable under the terms of the agreements. Carrying charges included in land for future development and sites for income property construction amount to $514,000 and $244,000 respectively.

6. Land under Sales and Option Agreements:

The major portion of land in this category has been optioned to a potential purchaser. Should the options not be exercised the Company will receive substantial amounts as compensation under the terms of the agreements.

7. Joint Ventures:

Five of the Company's income properties, of which one is still under construction, are co-owned with other corporations under joint venture agreements. In such cases, the consolidated financial statements include only the Company's share of the assets, liabilities, revenues and expenses. In certain of the joint ventures, the Company has undertaken to make interest bearing interim advances for the development of the properties and as at October 31, 1968 these advances amounted to $783,500. The Company is contingently liable at October 31, 1968 for $4,861,000, representing the liabilities in the joint ventures of its co-owners, but against such contingent liabilities the Company would have a claim upon the joint venture assets of its co-owners.

Title to one of the joint venture properties is subject to a mortgage of $2,250,000, which is the sole responsibility of the co-owner of the property. The co-owner has indemnified the Company for any action arising from this mortgage and to secure this indemnification has charged its interest in the property and joint venture agreement.

8. Construction in Progress:

The Company's share of the estimated costs to complete construction in progress is approximately $2,120,000. Undrawn proceeds of mortgages and mortgage commitments exceed this amount. On one of the projects mortgage financing is still to be arranged.

9. Provision for Development Costs:

The Company estimates and provides for the full cost of servicing sub-divisions currently under development. The provision for development costs is the unexpended portion of these estimates.

10. Mortgages Payable:

Mortgages payable comprise the following:

On land under sales and option agreements, at interest from 5% to 8% with varying repayment terms and maturing by 1977	$ 3,239,400
On land for future development, at interest from 5% to 8½% with varying repayment terms and maturing by 1979	938,500
On income properties, at interest from 6¼% to 8½% payable in equal monthly instalments of principal and interest and maturing by 2003	16,902,700
On sites for income property construction, at interest of 7% and maturing by 1971	330,000
	$21,410,600

Principal repayments are due approximately as follows:

Fiscal year ending October 31, 1969	$ 331,200
1970	842,000
1971	413,600
1972	1,141,200
1973	1,064,000
Subsequent to October 31, 1973	17,618,600
	$21,410,600

11. Capital Stock:

(a) During 1967 share purchase warrants were issued in connection with a public offering of 1,200,000 common shares and as a result 300,000 common shares are reserved for the exercise of these warrants. Such warrants entitle the holders thereof to purchase common shares at a price of $6 if exercised before the close of business on February 1, 1970 and at a price of $7 if exercised before the close of business on August 1, 1972.

(b) During the year ended October 31, 1968 options on 22,000 shares at $5.85 per share were granted to officers and employees. On the exercise of options during the year the Company issued 21,400 common shares for a total cash consideration of $108,200. At October 31, 1968 options to purchase 20,000 shares at $5 (expiring 1976) and 20,600 shares at $5.85 (expiring 1973 to 1978) were outstanding. A further 28,000 shares are reserved for the granting of future options.

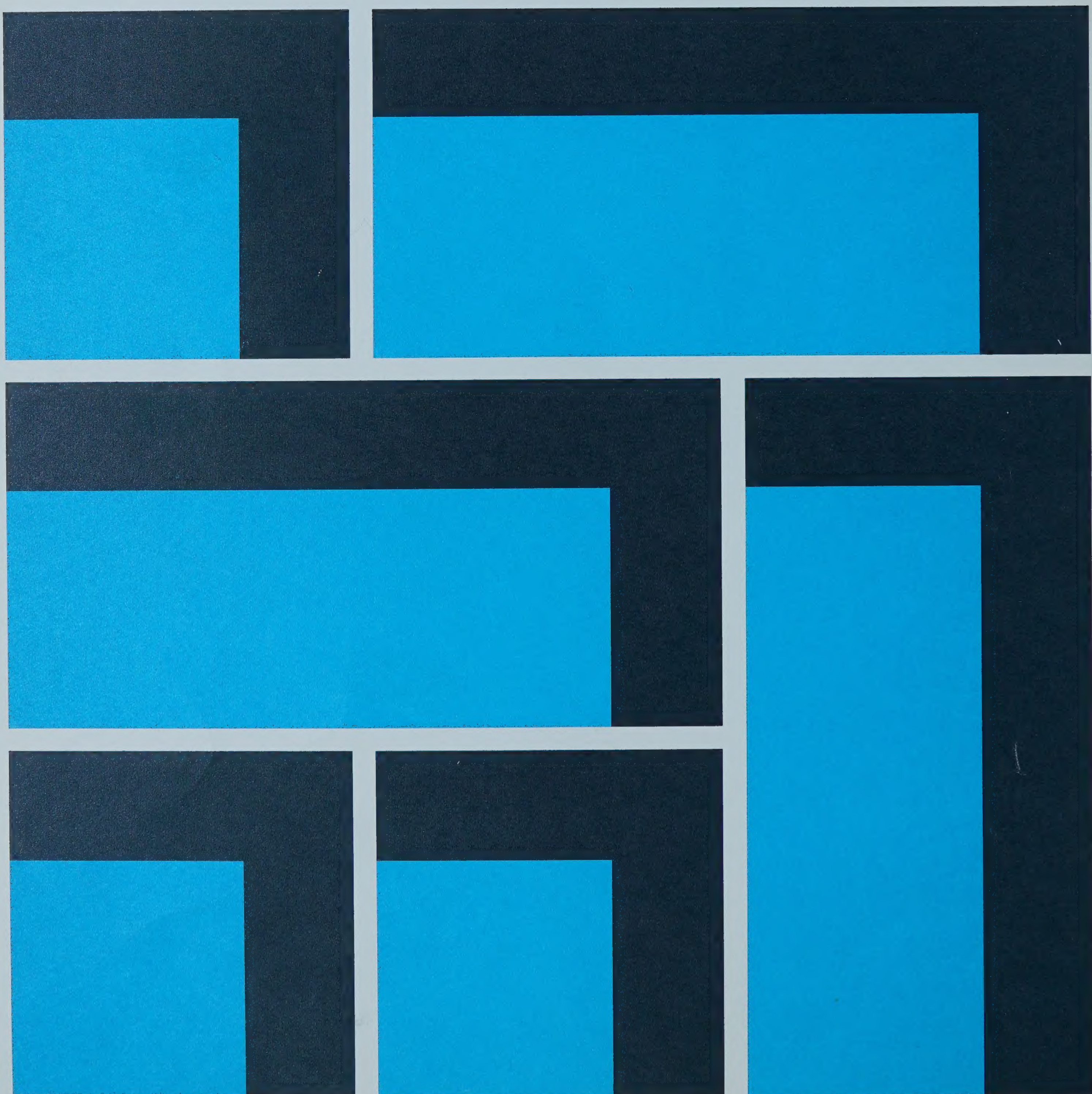
12. Subsidiaries:

The Company has two subsidiary companies, both wholly owned; Northhaven Farms Limited, which farms the Company's land held for future development, and Canada Centre Development Corp. Ltd., which is inactive. The consolidated financial statements include the accounts of these subsidiaries.

13. Remuneration to Directors and Senior Officers:

The aggregate direct remuneration paid or payable to the directors and senior officers of the Company in respect of the year ended October 31, 1968 was $121,000.

Markborough Properties Limited
50 Holly Street, Toronto 7, Ontario



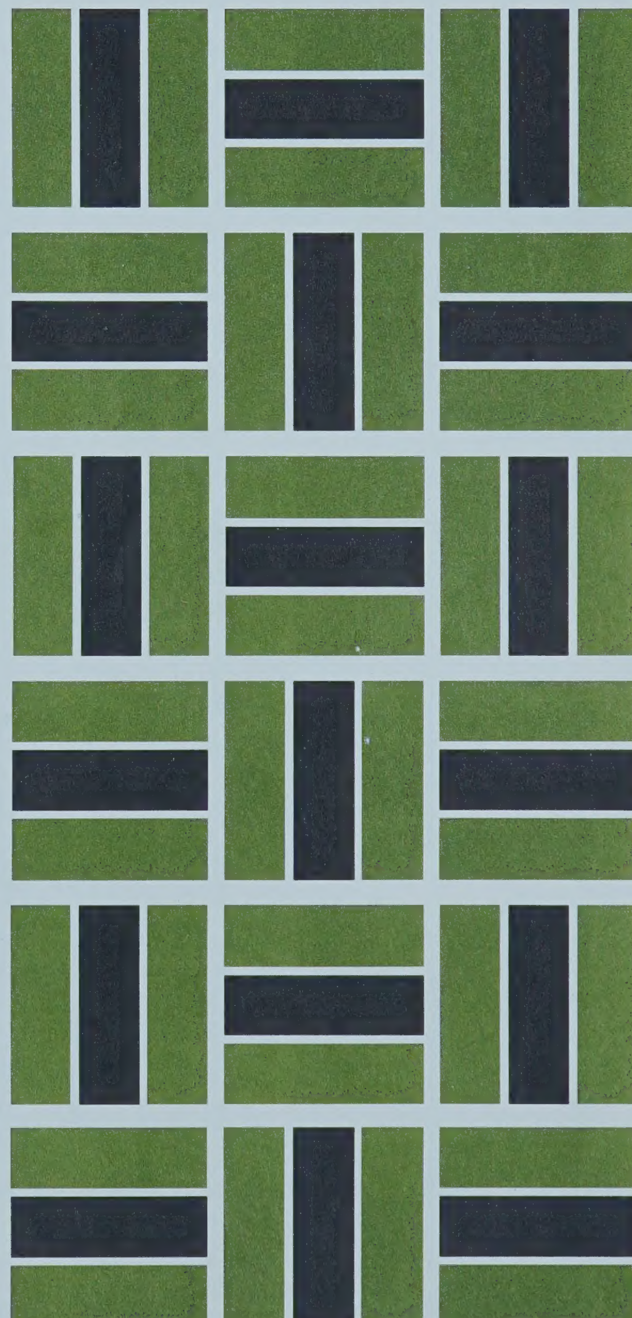
Consolidated Statement of Source and Application of Funds For the Six Months Ended April 30, 1968

(with comparative figures for the six months ended April 30, 1967)

	1968	1967
Funds were provided from:		
Operations:		
Net Income (loss) for the period	$ 100,800	$ (61,300)
Add expenses included therein not requiring a current outlay of funds:		
Depreciation	196,800	71,600
Income taxes, deferred	109,000	—
	406,600	10,300
Common shares, proceeds from issue	100,000	4,390,000
Mortgages on income properties and land	4,941,500	4,650,000
Land, development and related costs realized through sales	1,195,000	310,500
Total funds provided	6,643,100	9,360,800
Funds were applied to:		
Income properties, construction and acquisition	2,767,100	3,484,500
Mortgage principal repayments	617,400	477,700
Bank indebtedness	1,044,700	3,388,800
Land:		
Acquisition	926,400	1,582,700
Development and related costs	541,200	710,100
Carrying charges	210,000	311,000
Total funds applied	6,106,800	9,954,800
Net increase (decrease) in other assets and liabilities	$ 536,300	$ (594,000)
Represented by:		
Increase (decrease) in:		
Accounts, mortgages and other secured receivables	$ (36,300)	$ (187,700)
Prepaid expenses and other assets	294,700	121,700
Deposits on property purchases	352,800	96,500
Advances relating to joint ventures	(51,100)	(448,600)
	560,100	(418,100)
Deduct increase in:		
Accounts payable and accrued liabilities	21,400	154,000
Security deposits by lessees	2,400	21,900
	23,800	175,900
Net increase (decrease) in other assets and liabilities, as above	$ 536,300	$ (594,000)

MARKBOROUGH PROPERTIES LIMITED

Interim Report to the Shareholders for the Six Months Ended April 30, 1968



To the Shareholders

MARKBOROUGH
PROPERTIES LIMITED

The net income for the six months ended April 30, 1968 was $100,800 compared to a loss of $61,300 in the same period last year.

Gross revenue from income producing properties was $1,416,100 compared to $569,100 in 1967. This substantial increase reflects primarily the addition of three apartment buildings, one office building and the Regina Centre complex to the Company's income property holdings since April 30, 1967. The increase in net revenue from income properties was at a lower rate. To absorb higher realty taxes and operating expenses, rents have been increased in certain apartment buildings. This has resulted in somewhat lower occupancy levels temporarily but this situation is being corrected and improved earnings can be anticipated. To obtain greater control and improve the operating efficiency in this area, the Company has recently established its own Property Management Division.

Land sales were at a satisfactory level and in the six month period both volume and gross profit showed a significant improvement over the same period in 1967.

Generally, the Company is operating satisfactorily, and results are in line with our expectations at this stage in its progress. I expect that the results of the last six months of our current fiscal year will show some improvement over the period covered by this Interim Report.

May 29, 1968. *B. R. B. Magee, President*

Consolidated Statement of Income and Expenses For the Six Months Ended April 30, 1968

(with comparative figures for the six months ended April 30, 1967)

	1968	1967
Revenue from income properties	$1,416,100	$ 569,100
Less:		
Operating expenses	265,500	131,600
Mortgage interest	543,400	180,400
Realty taxes	288,800	108,600
Depreciation	196,800	71,600
	1,294,500	492,200
Net revenue	121,600	76,900
Sale of land and interest thereon	1,104,100	343,400
Less cost of sales	894,300	310,500
Gross profit from land sales	209,800	32,900
Sundry income	57,400	24,700
Income before general and administrative expenses	388,800	134,500
General and administrative expenses:		
Executive and office salaries	71,700	63,000
Bank interest	9,200	21,700
Other	98,100	97,500
Expenses of common share issue	—	13,600
	179,000	195,800
Net operating income (loss)	209,800	(61,300)
Provision for income taxes, deferred	109,000	—
Net income (loss) for the period	$ 100,800	$ (61,300)

Consolidated Statement of Retained Earnings (Deficit) For the Six Months Ended April 30, 1968

(with comparative figures for the six months ended April 30, 1967)

	1968	1967
Retained earnings (deficit) at beginning of period	$ 133,700	$ (11,200)
Net income (loss) for the period	100,800	(61,300)
Retained earnings (deficit) at end of period	$ 234,500	$ (72,500)